



## SEBI: Revised Guidelines for SME IPOs

### 1. Introduction

In 208th board meeting, the Securities and Exchange Board of India (SEBI) approved the following amendments to the SME framework under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

### 2. Key Amendments:

Aspect	Original Provision	Amendments
<b>Eligibility for IPO</b>	Specifies that an issuer is eligible to make an IPO if its post-issue paid-up capital is $\leq$ ₹10 crore.	EBITDA of at least ₹1 crore in any 2 of the last 3 financial years required for filing the Draft Red Herring Prospectus, tightening financial scrutiny.
<b>Offer for Sale (OFS)</b>	<i>Earlier not provided for.</i>	Capped at 20% of the issue size. Additionally, no selling shareholder can offload more than 50% of their pre-issue holding.
<b>Lock-In Period</b>	Minimum promoter contribution locked in for 3 years; excess contribution locked in for 1 year.	Excess holdings phased release: 50% after 1 year and the remaining 50% after 2 years, promoting gradual exit and market stability.
<b>Allocation for Non-Institutional Investors (NIIs)</b>	Allocation of shares to NIIs in SME IPOs based on a proportionate allotment system.	Aligned with main board norms, mandating a split between high-net-worth and institutional investors for more equitable distribution.
<b>General Corporate Purpose (GCP) Allocation</b>	The amount allocated for general corporate purposes in the issue documents cannot exceed 25% of the total amount raised. If the issuer has not identified an acquisition or investment target, this amount can be up to 35%.	Capped at 15% of the issue size or ₹10 crore, whichever is lower.
<b>Repayment of Promoter Loans</b>	<i>Earlier not provided for.</i>	Prohibits the use of IPO proceeds in SME issues for the repayment of loans to promoters, promoter groups, or any related parties, either directly or indirectly.



<b>Draft Red Herring Prospectus (DRHP) Review Process</b>	<i>Earlier not provided for.</i>	DRHP to be open for a 21-day public comment period, enabling stakeholder input and transparency. A QR code in newspaper notices is mandated.
<b>Migration for Further Issues</b>	SMEs with post-issue face value capital exceeding ₹10 crores and up to ₹25 crores to migrate to the main board for further issues, subject to shareholder approval and meeting main board eligibility criteria.	Further issue by SME Companies to be permitted without migration to Main Board subject to the issuer undertaking compliance of the provisions of SEBI (LODR) Regulations, 2015 as applicable to the companies listed on the Main Board.
<b>Related Party Transactions (RPTs)</b>	<i>Earlier not provided for.</i>	RPT norms applicable to main board-listed entities will now apply to SME-listed entities. Transactions will be considered material if they exceed 10% of the annual consolidated turnover or ₹50 crore, whichever is lower.

### 3. Conclusion

The revised SME framework under SEBI's (ICDR) Regulations, 2018, is a landmark effort to modernize the regulatory landscape for SME IPOs by introducing key governance matters in the loop, wherein tighter eligibility criteria, caps on fund utilization, and enhanced governance norms, SEBI has created a more structured and accountable ecosystem for SMEs to access public markets. This effort of SEBI will open the SME market for global investors hence enhancing the M&A landscape for India.

\*\*\*\*\*

*The content provided herein is for informational purposes only and does not constitute legal advice or a legal opinion. For more information, please contact [info@sarvaankassociates.com](mailto:info@sarvaankassociates.com) or visit [www.sarvaankassociates.com](http://www.sarvaankassociates.com)*